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STATE FOR US HQ BICE WASH DC

USDOC FOR 532/OEA/LHINES/KGAINES
USDOC FOR 3132 FOR FCS/OIO REGIONAL DIRECTOR WILLIAM
ZARIT

BEIJING FOR FCS JEANETTE CHU

BICE FOR OFFICE OF STRATEGIC INVESTIGATIONS

SIPDIS

E.O. 12958: N/A
TAGS: [BMGT](#) [BEXP](#) [HK](#) [ETRD](#) [ETTC](#)
SUBJECT: EXTRANCHECK: POST SHIPMENT VERIFICATION:
KASTON OPTRONICS MANUFACTURING LTD.

REF: A) USDOC 05199 B) EXP.LIC. D316278

¶1. Unauthorized disclosure of the information provided below is prohibited by Section 12C of the Export Administration Act.

¶2. As per reftel A request and at the direction of the Office of Enforcement Analysis (OEA) of the USDOC Bureau of Industry and Security (BIS), Export Control Officer Philip Ankel (ECO) conducted a post shipment verification (PSV) at Kaston Optronics Manufacturing Ltd., Rua De Foshan, No 51, EDIF, San Kin Yip Centro Commercial, Andar, Macao (Kaston). The PSV concerned 4000 grams of Hafnium Oxide in the form of three gram tablets valued at \$3,360 that were the subject of export license D316278 and which were exported to Kaston in November 2004. Hafnium oxide is classified under ECCN 1C231 and is controlled for nuclear nonproliferation reasons (NP).

¶3. On October 12, 2006, the ECO visited Kaston at the address above and met with Ms. Waiman Fong, VP of Administration and Finance at the location referenced above. The Kaston facilities are located on one half of the second floor of this older industrial center located in the center of Macau.

¶4. Ms. Fong was open and cooperative and provided the relevant documentation concerning the Hafnium Oxide on request. At one point, Ms. Fong stressed that she was aware of the controlled nature of the item and was willing to be open and forthcoming with the ECO because Kaston had always operated legally.

¶5. Ms. Fong stated that Kaston uses Hafnium Oxide to coat crystals that are used in various types of lasers including those used for stage lighting (for use generally in China) and also for medical purposes (which are exported primarily to the United States). Mr. Fong provided samples of crystals (both in their raw form and as coated with the Hafnium Oxide). More details about the company can be found at its web site (www.kaston.net).

¶6. Mr. Fong stated that the production that used the Hafnium Oxide was recently moved to the company's mainland China production site (in Fujian province).

She stated that Kaston moved its production facilities because of the greater availability of skilled engineers at its mainland China production site. During a tour of the Macau site, it did not appear that any of the machines there were in use and, in fact, much of the machinery was partially or fully boxed for further shipment while other rooms were empty. Employees were only located in the same office as Ms. Fong and there were no production employees or engineers apparent anywhere at the Macau site. Ms. Fong stated that Kaston intended to locate newer production facilities at the Macau site in the near future.

¶17. Ms. Fong stated that the purchase of the Hafnium oxide in question had been the responsibility of an employee no longer with the company. Ms. Fong was, however, able to provide several documents relating to the purchase of the item including the purchase order, End Use Statement and a "Nuclear Certification" signed by Ms. Cynthia Cheang, Secretary to the Managing Director. That certification provided that the Hafnium Oxide would not be used in nuclear explosive activities or safeguarded or unsafeguarded nuclear activities. Mr. Fong also provided a copy of the original BXA-711 (Statement by Ultimate Consignee and Purchaser) signed by Ms. Cheang and Ms. Fong (suggesting that Ms. Fong was directly involved in the original purchase).

¶18. Ms. Fong further stated that approximately one kilogram of the original four-kilogram shipment remained when the production facilities were moved to China. The remaining Hafnium Oxide was also moved with the production facilities to mainland China. When the ECO pointed out that the "Nuclear Certification" (signed by Ms. Cheang) provides that BXA (now BIS) approval is required for reexport, Ms. Fong suggested

that failure to obtain such approval was an oversight.

¶19. Ms. Fong indicated that Cerac is the only U.S. supplier they have used for Hafnium Oxide. She recalls that the ordering (and licensing) process took close to one year and that, as a result, Kaston tended to order larger amounts for use over a longer period of time. A previous order destined for Kaston's China production facility in 2001 had taken close to six months to complete. She stated that Kaston now orders this product from Germany as it is of better quality and less expensive.

¶10. While Ms. Fong was open, forthcoming and believable during the visit, she conceded that Kaston had reexported some of the Hafnium Oxide notwithstanding a commitment not to do so (absent BIS approval). In addition, it did not appear to the ECO that any production was underway at the Macau location. As a result, the ECO recommends that this PLC be classified as Unfavorable.
Cunningham